SALDANHA BAAI BAY
MUNISIPALITEIT | MUNICIPALITY | uMASIPALA

ANNUAL BUDGET
2017/18 MTREF

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1. PART 1 – ANNUAL BUDGET

1.1 Section 1 - Mayor's budget speech

The Mayor's budget speech for the 2017/18 Medium Term Budget and Expenditure Framework (MTREF) will be handed on 25 May 2017 during the Council meeting, where the budget will be considered for adoption by Council.

1.2 Summary of material amendments made to the tabled budget after the consultation process

A notice to inform the public of the tabled budget as well as to invite written submissions or representations to the municipality on the draft budget was published in the Weslander of 30 March 2017 as well as on the municipal website.

The notice was placed in the newspaper for two consecutive weeks.

Seven public consultation meetings were held in towns from 3 April to 12 April 2017.

Eleven written representations attached in Annexure "K" have been received. These inputs, except for the one received on 6 May were carefully considered by the Mayor, Council and management at a budget workshop that took place on 4 May 2017.

All the responses to the inputs received are provided in the Annexure. It was resolved that IDP inputs will be considered during the next IDP cycle.

The LGMTEC assessment received from Provincial Treasury is attached as Annexure "L".

The following omissions and errors have been detected and had to be rectified:

The capital budget was adjusted as follow:

Table 1 – Adjustments to Capital budget

Description	2017/18 Budget	2018/19 Budget	2019/20 Budget	Explanation
Tabled Budget: March 2017	226 798 873	100 476 284	110 910 465	
Adjustment	-	10 480 000	-	Adjustment of housing grant.
Final Budget May 2017	**226 798 873**	**110 956 284**	**110 910 465**	

The operating budget was adjusted as follow:

Table 2 – Adjustments to Operating budget

	2017/18 Tabled budget	Adjustment	2017/18 Final Budget	Explanation
REVENUE				
Property rates	198 697 050	1 612 421	200 309 471	Budget was very conservatively. Mscoa item adjustment had to be done.
Service charges	559 116 589	387 579	559 504 168	Correction of Mscoa item used to record electricity discount.
Rental of facilities and equipment	5 165 548	-	5 165 548	
Interest earned	45 027 751	-	45 027 751	
Sale of goods and rendering of services	19 620 374	-	19 620 374	
Operational Revenue	718 284	-	718 284	
Fines, Penalties and Forfeits	35 595 842	-	35 595 842	
Licences and permits	1 451 016	-	1 451 016	
Agency services	4 851 000	-	4 851 000	
Grants recognised – operational	85 553 474	-	85 553 474	
Other revenue	2 940 394	-	2 940 394	

	2017/18 Tabled budget	Adjustment	2017/18 Final Budget	Explanation
Revenue before capital grants	958 737 322	2 000 000	960 737 322	
Plus: Capital grants	36 625 624	-	36 625 624	
TOTAL REVENUE	**995 362 946**	**2 000 000**	**997 362 946**	
LESS: EXPENDITURE				
Employee related costs	324 685 531	1 220 579	325 906 110	Task evaluation, and other adjustments
Remuneration of councillors	11 299 152	-	11 299 152	
Bad debts Written-off	14 256 324	-	14 256 324	
Depreciation & amortisation	136 123 655	-	136 123 655	
Finance charges	22 896 402	-	22 896 402	
Bulk purchases	310 407 494	(3 778 150)	306 629 344	mSCOA change of item required. Amount was moved to operational cost
Contracted services	88 871 558	(2 724 242)	86 147 316	Items linked to repairs and maintenance was decreased.
Transfers and grants	3 393 193	500 000	3 893 193	WESGRO added
Operational Cost	54 539 764	4 178 348	58 718 112	Adjustments of training related expenditure as well as Mscoa related changes.
Operating leases	3 343 441	-	3 343 441	
Inventory Consumed	38 599 473	3 808 242	42 407 715	Adjustments of fuel.
Gains and losses	28 082 535	-	28 082 535	
TOTAL EXPENDITURE	**1 036 498 522**	**3 204 778**	**1 039 703 300**	
DEFICIT	(41 135 576)	(1 204 778)	(42 340 354)	

Section 2 - Resolutions

It is recommended –

1. That Council takes note that version 6.1 of the mSCOA classification framework was used to prepare the budget;

2. That Council approves the annual budget of the municipality for the financial year 2017/18 and the two outer years 2018/19 and 2019/20 as per **Annexure A** (Budget schedules A1 to A10 and SA1 to SA 37)**, Annexure B** (capital budget per department and per funding source) and **Annexure C** (capital budget per ward);

3. That Council approves the property rates and tariffs as contained in **Annexure D** for the 2017/18 budget year;

4. That Council takes note that the electricity tariffs as included in **Annexure D** has not yet been approved by NERSA;

5. That Council takes note of the sensitivity analysis of the proposed tariff increases on domestic households as per **Annexure E**;

6. That Council takes note of MFMA Budget Circular 85 and 86 attached as **Annexure F**;

7. That Council takes note of the quality certificate signed by the Municipal Manager as per **Annexure G**;

8. That Council approves the changes to the budget related policies attached in **Annexure H;**

9. That the service standards attached as **Annexure I** be approved;

10. That Council take note that that the review of the long term financial plan for the 2017/18 financial year is limited to the update of the monitoring schedule, which is attached in the report as **Annexure J**'

11. That That Council take note of the public input received on the draft budget as attached in **Annexure K**;

12. That Council takes note of the LGMTEC comments received from Provincial Treasury as well as management's response included in the report attached as Annexure **L**; and

13. That the Transfers and Subsidy policy (Grant-In-Aid) be withdrawn, and that further clarification be obtained on section 153 and Schedules 4B and 5B of the Constitution, relating to the functions of Local Government.

1.3 Section 3 - Executive summary

1.3.1 Introduction

When reflecting back on the last 12 months, one cannot but notice that much has happened, such as the municipal elections in August 2016, a newly elected Council, a new financial system, another clean audit, a new financial chart of accounts (mSCOA) that was used in the budget preparation process, the Saldanha Bay Industrial Development Zone that went into second gear, to name just a few.

In the local and international media big stories that surfaced were, amongst other, the axing of Pravin Gordan, the drought in South Africa, the fees-must-fall-campaign, the state capture report, the war in Syria and surrounding areas, and Donald Trump appointed as the 45th American President.

On the local economic front, it seems that there are signs of a small recovery to come. Minister Gordhan, in his last budget speech on 22 February 2017, has however raised many concerns such as the high unemployment rate, low economic growth and high government debt. Also outlined by the Minister is the extreme inequality and hurtful fractures in our society – these are unacceptable to all of us.

However, the impact to the economy of the recent changes at Treasury has not surfaced yet. Also, we all wait to see what will happen on the political front in 2017 and 2018.

The Treasury expects growth in the South African economy to be just 0.5% this year, 1.3% in 2018 and 2% in 2019. This forecast is supported by marginally higher global growth, stabilising commodity prices, greater reliability of the electricity network, more favourable weather conditions, recovering business and consumer confidence, and improved labour relations. This growth is still lower than the growth estimates for the world economy of 3.4% and 3.6% in 2017 and 2018 respectively.

The inflation outlook is expected to average 6.4% this year, 6.4% in 2017/18 and 5.7% in 2018/19.

The low economic growth, falling incomes of the lower and middle class and high unemployment rate will put pressure on our consumer’s ability to pay for services. This will impact on the ability of the municipality to collect revenue on services and to keep expenditures within budgeted allocations. If there is no economic growth in our broader community, revenue will not increase and expenditure cannot be expanded.

We have attempted to keep tariff increases at Saldanha Bay municipality at affordable levels. The preparation and implementation of a budget originates from the social contract between the municipality and the ratepayers. The municipality is mere custodians for the public who requires quality services in exchange for their payment.

The new fourth generation Integrated Development Plan (IDP) will be adopted from 1 July 2017. The details of this are included in a separate agenda item to Council, also on 28 March 2017.

The Council has reviewed its macro organisational personnel structure and the details of this is included in a separate agenda item to Council, also on 28 March 2017.
A high level summary of the 2017/18 MTREF is as follows:

Table 3 – High level summary of the 2017/18 MTREF

	2016/17 Adjustment budget	2017/18	2018/19	2019/20
Capital expenditure	232 280 911	226 798 873	110 956 284	110 910 465
Operating expenditure	972 420 221	1 039 703 300	1 100 717 346	1 180 221 887
Total expenditure	**1 204 701 132**	**1 266 502 173**	**1 211 673 630**	**1 291 132 352**
Operating Revenue	826 778 880	875 183 848	922 282 338	985 212 999
Grants	124 374 620	122 179 098	128 429 876	127 025 000
Total Revenue	**951 153 500**	**997 362 946**	**1 050 712 214**	**1 112 237 999**

1.3.2 Municipal Regulations on a Standard Chart of Accounts (mSCOA)

The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette notice no. 37577 on 22 April 2014. This is arguably the biggest reform of Local Government since 1994. It impacts the business processes of the entire municipality and everyone must change and adopt.

The municipality commenced with its mSCOA planning already as early as June 2014, and since then held many planning meetings and training session to prepare for 1 July 2017.

During a mSCOA workshop, hosted by Nasional Treasury on 9 and 10 March 2017, Saldanha Bay municipality was specifically mentioned by National Treasury as the first municipality in the country who has submitted its data string successfully on the LG Database portal. This is a great achievement for the municipality, which sums up all the efforts and hard work put into this reform by the various key municipal officials.

The municipality has used version 6.1 of the mSCOA classification framework to prepare its 2017/18 MTREF budget.

The municipality has submitted two separate A schedules:

- To disclose the audited and the 2016/17 information using version 2.8 of the A schedule; and
- To capture the 2017/18 MTREF mSCOA budget using version 6.1 of the A schedule.

1.3.3 Water tariffs

The water crisis has also affected Saldanha Bay municipality, and, at the date of this report, level 3 water restrictions was instituted by Council, which requires a water saving of at least 30% from the public.

The municipality is currently busy with an investigation in terms of section 78 of the Municipal Systems Act, Act 32 of 2000. The investigation entails whether the West Coast District Municipality will continue to be the water service provider for Saldanha Bay municipality, after the expiry of the current contract at 30 June 2018.

Saldanha Bay municipality receives it water from the Misverstand dam via the Berg River system. Misverstand is not a holding dam. Water is drawn from the Misverstand weir and pumped to the treatment works at Withoogte.

One of the sources of the Berg River system is the Voëlvlei Dam. The system that feeds the Misverstand dam is under treat, the levels in the Berg River and Voëlvlei dam is low.

A summary of some of the dam levels statistics on 16 March 2017 is provided in the **table 4** below. The winter rain season only starts in May annually, not knowing at this point in time what the rainfall pattern will be this year.

In **table 5** below, the general water consumption by type of consumer for Saldanha Bay municipality, is provided.

In **table 6** below, the detailed proposed water tariffs for 2017/18 is provided. The general increase proposed is 7%. It is also proposed in the 2017/18 water tariffs, that for level 2 and level 3 water restrictions, a higher tariff be applicable for the high-end consumers, consuming more than 60 kl water per month. This proposed increase is 25%. It is foreseen that this will not have any significant impact on domestic consumers. This has been done to discourage excessive water consumption and a means to conserve this scarce resource. Providing water to the community remains the municipality's highest priority.

The agriculture category, where more than 80 kl per month is consumed was also adjusted upwards. This range will now be charged at the same rate of that of the 0 – 6 kl category for domestic households. This new rate proposal is to make a correction to the current rate above 80 kl, as it is currently provided to these consumers at a rate lower than the cost price for the municipality.

Table 4 – Dam levels statistics on 16 March 2017

Dams	**Capacity ML**[1]	**15 May 2017**
Berg River	130 010	32%
Voëlvlei	164 095	17%
Theewaterskloof	480 188	15%

Table 5 – Water consumption by type of consumer

Type of consumer	**Water usage percentage**
Domestic	38,8%
Wet industries	34,6%
Business	6,6%
Other government institutions	5,0%
Agriculture	4,6%
Langebaanweg	3,4%
Departmental	2,3%
Other industries	2,0%
Schools	1,8%
Apartments and town houses	0,9%

[1] 1 000 000 litres equates to 1 megalitre (ML).

1 000 kl equates to 1 ML

1 000 litres equates to 1 kl

Table 6 – Proposed water tariffs for 2017/18

TYPE OF CONSUMER	BASIC	LIMITA-TION (0%)	LIMITA-TION (10%)	LIMITA-TION (20%)	LIMITA-TION (30%)
DOMESTIC					
Indigent Households					
0 to 6 kl	55,50	-	-	-	-
7 to 40 kl	55,50	10,20	10,20	11,70	16,90
41 to 60 kl	55,50	11,80	11,80	14,40	20,10
61 to 80 kl	55,50	12,70	12,70	18,60	25,60
More than 80 kl	55,50	14,80	14,80	19,80	27,00
Other Households and small holdings					
0 to 6 kl	55,50	8,60	8,60	9,30	10,60
7 to 40 kl	55,50	10,20	10,20	11,70	16,90
41 to 60 kl	55,50	11,80	11,80	14,40	20,10
61 to 80 kl	55,50	12,70	12,70	18,60	25,60
More than 80 kl	55,50	14,80	14,80	19,80	27,00
APARTMENTS & TOWNHOUSES (for single bulk supplier)					
0 to 60 kl	55,50	11,80	11,80	12,80	17,40
Above 61 kl	55,50	11,80	11,80	15,60	21,20
AGRICULTURE					
0 to 6 kl	55,50	8,60	8,60	9,30	10,60
7 to 40 kl	55,50	10,20	10,20	11,70	16,90
41 to 60 kl	55,50	11,80	11,80	17,60	20,10
61 to 80 kl	55,50	12,70	12,70	18,60	25,60
More than 80 kl (at cost for the municipality)	55,50	8,60	8,60	9,30	10,60
BUSINESS & INDUSTRY					
0 to 60 kl	55,50	11,80	11,80	12,80	17,40
Above 61 kl	55,50	11,80	11,80	15,60	21,20
TEMPORARY CONNECTION	-	14,20	14,20	18,70	25,40

TYPE OF CONSUMER	BASIC	LIMITA-TION (0%)	LIMITA-TION (10%)	LIMITA-TION (20%)	LIMITA-TION (30%)
INSTITUTIONAL					
Schools, Churches, Hospitals & Old age homes	55,50	8,60	8,60	9,30	12,90
Departmental	55,50	8,60	8,60	9,30	12,90
WET INDUSTRIES					
0 to 30 000 kl	-	11,80	11,80	12,80	17,40
Above 30 000 kl	-	10,00	10,00	12,00	14,70
Electro-mechanical Meters	3 201,50	-	-	-	-
Mechanical Meters	1 476,50	-	-	-	-
		-			
GOLF COURSES	55,50	8,60	8,60	11,30	12,90
			-		
KOPPIESVELD FARMERS					
0 to 60 kl	-	11,80	11,80	12,80	17,40
Above 61 kl	-	11,80	11,80	15,60	21,20
OTHER NOT MENTIONED	55,50	11,80	11,80	15,60	21,20

1.3.4 Electricity tariffs

In terms of the Electricity Regulation Act 4 of 2006, NERSA (The National Energy Regulator of South Africa) issues distribution licences with conditions for the distribution of electricity. These conditions, amongst other, include the approval of tariffs. NERSA provides a guideline for municipal tariffs, and the municipality must then comply with this guideline for NERSA to approve their electricity tariffs.

A dispute between NERSA and Eskom on the Eskom tariff increases caused delay. At that point in time Eskom was allowed only increase the municipal tariffs with an average of 0.31%, compared to the 8% indicated in the MFMA Circular 85 for preparation of the 2017/18 budget.

This year the consultation document for the guidelines was only issued on 28 February 2017 and closing date for comments was 20 March 2017. NERSA then issued the guideline letter to the municipality only on 18 April 2017. This timeline is not in line with the MFMA budget cycle processes and complicate the budget preparation process for municipalities.

In previous approval letters to Saldanha Bay municipality, NERSA has instructed the municipality to rationalise and reduce the number of tariffs. A full study was conducted during the 2015/16 financial year for the implementation in 2016/17. Due to the late sending of the approval letter in 2016, Council decided to postpone the implementation of the tariff restructuring. Due to the municipal elections in 2016, consultation on the restructuring could not start early enough. Furthermore, NERSA could not provide the tariff guidelines during the budget preparation period.

Although the municipality has officially applied to NERSA in February 2017 for an increase of 7.2%, they have indicated that it could not be processed prior to the issuing of the guideline letter to municipalities.

The consultation letter refers to an Eskom increase of 0.31%. Based on the calculation methods this related to a possible increase in the municipal electricity tariffs of 1.88%.

Based on the information in the consultation documentation a revised tariff application was sent to NERDSA on 4 April 2017 based on a 1.88% Tariff Increase. This was also used in the tabled budget participation process with the community.

Although section 42 of the MFMA requires that bulk price increases charged to municipalities by an organ of state must be tabled by 25 March annually, if they are to be effected as from 1 July of the same year, the Minister of Finance has granted extension until 5 April 2017 for the tabling of Eskom's bulk prices for municipalities.

NERSA may also insist on a tariff restructuring. This might not be possible since there will not be time to have community participation and it could lead to the situation, as in the past, where the municipality will have to implement tariffs that have not been approved by NERSA.

The electricity tariffs included in the draft 2017/18 budget is therefore still subject to NERSA approval. NERSA is currently busy with the Tariff approval process and will endeavour to finalize the applications by 31 May 2017. It is therefore possible that NERSA will not have approved our Electricity Tariffs before the Special Council Meeting on 25 May 2017 and that there might still be changes to the tabled Electricity Tariffs required thereafter.

1.3.5 Operating budget

A summary of the operating budget is provided in the table below.

Table 7 - Operating budget

	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
REVENUE				
Property rates	182 051 302	200 309 471	210 020 417	228 891 357
Property rates - penalties & collection charges	3 000 000	3 195 000	3 386 700	3 589 908
Service charges – Electricity	303 976 329	315 491 062	336 746 559	361 090 965
Service charges – Water	118 529 747	129 080 524	135 845 084	144 325 647
Service charges – Sanitation	52 881 496	57 488 384	61 780 772	66 560 389
Service charges – Refuse	53 110 252	57 444 198	61 224 987	65 690 411
Rental of facilities and equipment	5 904 384	5 165 548	5 475 491	5 804 015
Interest earned - external investments	36 767 233	37 937 411	36 040 540	34 238 513
Interest earned - outstanding debtors	6 689 000	7 090 340	7 373 964	7 668 924
Traffic fines	34 441 223	32 400 842	33 372 852	34 374 024
Licences and permits	1 237 790	1 451 016	1 538 076	1 630 368
Agency services	4 410 000	4 851 000	5 142 060	5 450 584
Grants recognised – operational	77 614 640	85 553 474	92 382 726	101 544 900
Other revenue	23 780 123	23 279 052	24 334 836	25 897 894
Revenue before capital grants	**904 393 520**	**960 737 322**	**1 014 665 064**	**1 086 757 899**
Plus: Capital grants	46 759 980	36 625 624	36 047 150	25 480 100
TOTAL REVENUE	**951 153 500**	**997 362 946**	**1 050 712 214**	**1 112 237 999**
LESS: EXPENDITURE				
Employee related costs	299 756 269	325 906 110	346 324 592	370 385 615
Remuneration of councillors	10 485 889	11 299 152	12 090 080	12 936 403
Bad debts Written-off	20 331 753	14 256 324	15 111 720	16 018 428
Depreciation & asset impairment	138 570 558	136 123 655	144 291 116	152 948 590
Finance charges	15 786 244	22 896 402	24 351 199	30 331 116
Bulk purchases	297 619 665	306 629 344	328 560 860	352 841 253
Contracted services	80 444 391	86 147 316	89 417 217	95 295 393
Transfers and grants	3 518 442	3 893 193	4 062 842	4 241 005
Other expenditure	83 354 216	104 469 268	107 719 552	115 389 780
Gains and losses	22 552 793	28 082 535	28 788 168	29 834 304
TOTAL EXPENDITURE	**972 420 221**	**1 039 703 300**	**1 100 717 346**	**1 180 221 887**
DEFICIT	**(21 266 721)**	**(42 340 354)**	**(50 005 132)**	**(67 983 888)**

The main contributors to the operating revenue and operating expenditure of the 2017/18 financial year are as indicated in **figure 1** and **figure 2**.

Figure 1 - Operating Revenue budget

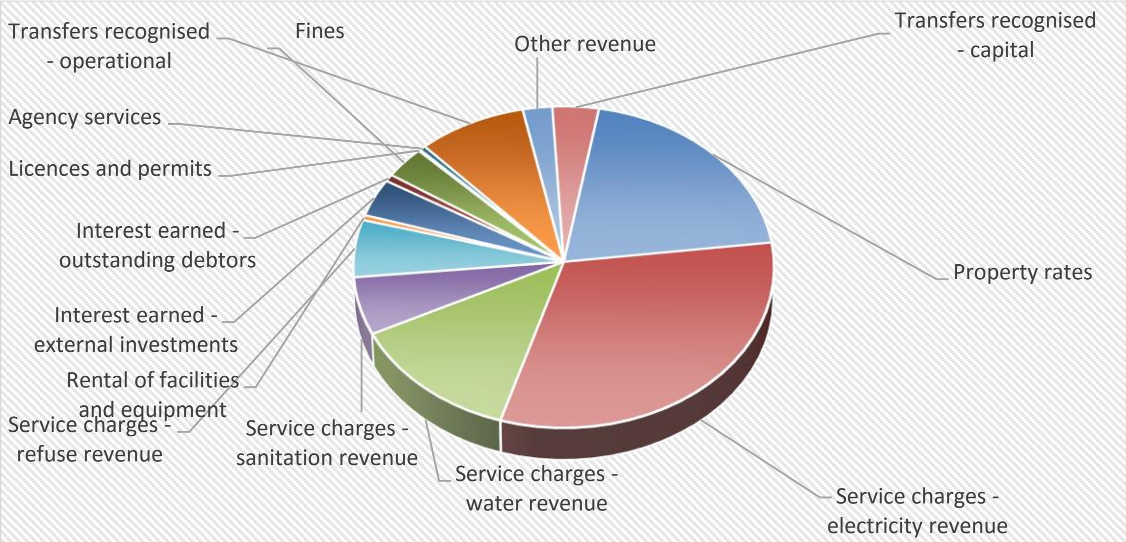
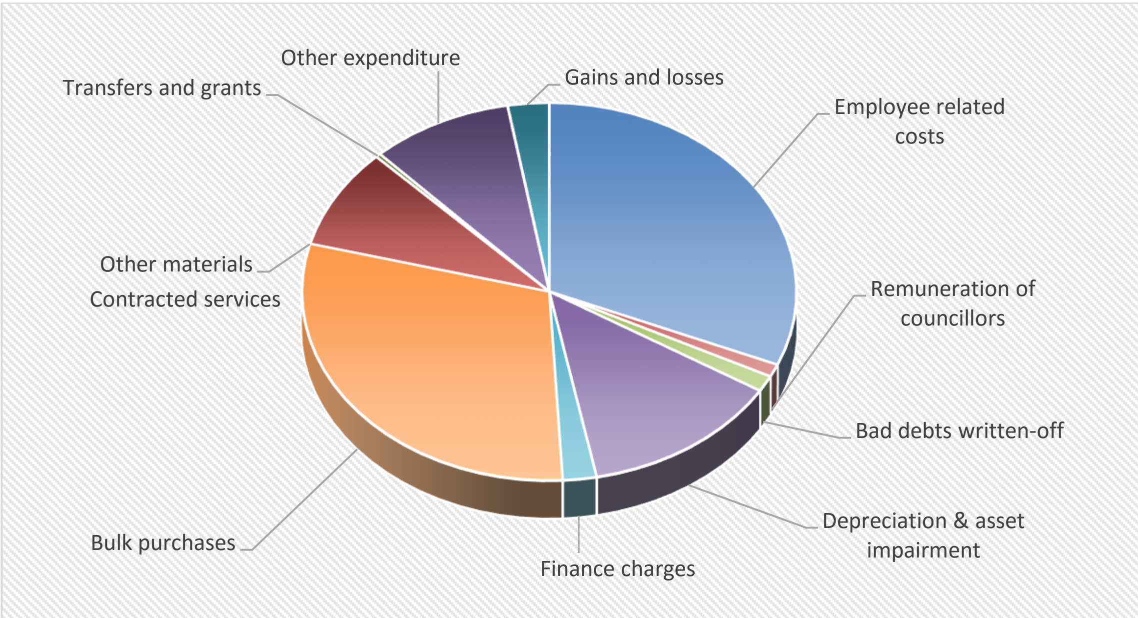


Figure 2 - Operating Expenditure budget



1.3.6 Budgeted operating deficit

The budgeted deficit for the 2016/17 MTREF period is R42.3 million, R 50.0 million and R 67.9 million respectively. The municipality is budgeting for a deficit as the depreciation charge is not fully cashed-back.

1.3.7 Capital budget - Infrastructure projects

National Treasury has urged municipality to prioritize spending on infrastructure. The summary per category of infrastructure projects over the MTREF is listed in the table below.

Infrastructure projects comprise 64% of the total capital budget in 2017/18, 84% in 2018/19 and 84% in 2019/20.

Table 8 - Infrastructure projects as % of total capital budget

Asset category	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Roads, Pavements, Bridges & Stormwater	38 216 994	35 964 193	25 086 000	13 404 847
Water Reservoirs & Reticulation	7 354 218	17 726 143	4 348 000	20 500 000
Electricity Reticulation	28 235 598	29 351 030	14 488 000	30 455 000
Sewerage Purification & Reticulation	37 976 142	33 356 009	20 135 148	9 800 000
Refuse Sites	2 601 353	29 392 795	29 567 150	18 725 253
Other Infrastructure	635 972	280 000	-	-
TOTAL INFRA-STRUCTURE ASSETS	**115 020 277**	**146 070 170**	**93 624 298**	**92 885 100**
Plus: Other assets				
Establishment of Parks and Gardens	777 785	860 000	150 000	850 000
Libraries	-	150 000	-	-
Recreational Facilities	23 647 461	6 214 626	-	1 000 000
Clinics	8 125	-	-	-
Other community assets	9 966 555	10 717 000	1 500 000	-
Other Motor vehicles	5 557 999	7 010 000	4 000 000	5 560 000
Plant and Equipment	1 075 521	1 301 600	378 000	1 410 000
Office Equipment	2 723 981	3 880 601	1 146 000	1 269 000
Security Measures	3 217 387	3 223 600	1 200 000	200 000
Other Land and Buildings	50 395 394	34 625 261	3 450 000	900 000
Other Assets	4 016 723	4 767 000	2 585 000	3 756 000
Fire Brigade	-	2 000 000	-	-
Intangible assets – Software	15 873 703	5 979 015	2 922 986	3 080 365
Total capital budget	**232 280 911**	**226 798 873**	**110 956 284**	**110 910 465**
Infrastructure projects as % of total capital budget	**50%**	**64%**	**84%**	**84%**

1.3.8 Repairs and maintenance expenditure

Repairs and maintenance expenditure budget for 2017/18, 2018/19 and 2019/20 is R56 090 346, R59 342 055 and R62 759 490 respectively (see table below).

Under the mSCOA classification framework this expenditure is classified under the project segment only.

It must however be noted that the amount reflected as repairs and maintenance only represents materials and contracted services. No labour and vehicle cost incurred by the municipality is currently allocated to repairs and maintenance due to the absence of the proper costing system. The real repairs and maintenance is therefore higher than the amount reflected in the budget documents.

The municipality is currently in the process of drafting a costing policy with the aim to ensure that proper costing will be done in the near future for its 4 major services. The initial plan was to submit it to Council in March 2017 for consideration, but more time is needed to complete and review the policy. The human resource allocation for the work to be done on this must also first be addressed.

Table 9 – Repairs and maintenance expenditure

	Adjusted Budget 2016/2017	Draft Budget 2017/2018	Draft Budget 2018/2019	Draft Budget 2019/2020
Repairs and maintenance	43 406 645	56 090 346	59 342 055	62 759 490
Increase from the previous year		29.2%	5.8%	5.8%
Repairs and maintenance as a percentage of operating expenditure	4.5%	5.4%	5.4%	5.3%

1.3.9 Rates and tariffs

The proposed 2017/18 rates and tariff increase percentages has been provided in the table below. For comparability the previous 2 years' increases are also provided.

Table 10 - Rates and tariffs for 2017/18

	Budget 2015/16	Budget 2016/17	Draft Budget 2017/18
Property rates	6.5%	5%	6.5%
Electricity	12.2%	7.64%	1.88%
Water	8%	6%	7%
Refuse	12%	12%	8%
Sewerage	8%	7%	7%
Sundry tariffs	8%	6%	10%

1.3.9.1 Explanation for increases above 6.4%

MFMA Circular 86 requires that all increases in excess of 6.4% must be justified. A short explanation for the rationale of the increases is provided below.

Property rates and the new valuation roll is detailed in paragraph 1.3.10 of this report.

As aforementioned in paragraph 1.3.3, **water** is proposed to increase in general with 7% in 2017/18. The increase of 7% is required to ensure that this tariff remains cost reflective.

Refuse is proposed to increase with 8% to ensure that this tariff is cost reflective.

Sewage will increase with 7% to ensure that this tariff is cost reflective.

Sundry tariffs will increase with 10%. The sundry tariffs, such as the rates charges on the municipal resorts, are low in comparison to the industry and a 10% increase is proposed.

1.3.9.2 Financial support provided to indigent households

Saldanha Bay Municipality provides free basic services to poor households as a means of poverty alleviation. This mainly provides support to households who are unable to pay, or struggle to pay for their basic services.

This includes households with an income base below a determined threshold of R4 300, who will receive a 100% subsidy.

Further relief will be provided to households with an income between R4 300 and R5 350, who will receive a subsidy of 70%.
These consumers should apply to be registered as an indigent household in the indigent register in order to obtain this benefit.

Indigent households will in 2017/18 receive free electricity (50 electricity units per month), water (6 kilolitres per month), free refuse removal and free sanitation based on a developed erf size of 250m².

In respect of property rates, the first R50 000 value of all residential properties are exempted. In addition to this, a further R135 000 value of property is exempted from property rates for all indigent households, bring the total rebate to R185 000.

Support is also provided to public benefit organisations by subsidising 75% (60% previous year) of the monthly service account.

Child headed households are furthermore subsidised in the same manner as a 100% qualifying indigent household.

1.3.9.3 Financial support provided to pensioners

A special rebate on property rates is provided to pensioners based on their monthly income levels, which has been adjusted with approximately 6.5% from the previous year, which is indicated in the table below:

Table 11 - Financial support provided to pensioners

Monthly income range		Rebate percentage
R 0	R 3 810	100%
R 3 811	R 5 370	90%
R 5 371	R 5 960	80%
R 5 961	R 6 680	70%
R 6 681	R 7 510	60%
R 7 511	R 8 220	50%
R 8 221	R 8 950	40%
R 8 951	R 9 650	30%
R 9 651	R 10 250	20%
R 10 251	R 10 960	10%

1.3.10 2016 General Valuation

The 2016 General Valuation will come into effect from 1 July 2017. In terms of section 32 of the Municipal Property Rates Act, Act 6 of 2004, a municipality must, at least every 5 years compile a municipal valuation roll.

The municipality appointed an independent qualified registered professional valuer to ensure that this process was conducted in an objective and fair manner.

The process followed for the objection process, which closed on 31 March 2017, was as follows:

- SBM advertised in the January municipal accounts that the GV2016 Valuation Roll will be available at all municipal offices and on the Saldanha Bay Municipality's website www.sbm.gov.za as from 2 February 2017 with 31 March 2017 being the expiry date for objections;
- The municipality advertised twice in the local media (2 February 2017 and 9 February 2017);
- Notification has been placed on the municipal website;
- Notifications has been posted to every owner of property;
- The valuation process was reported in the local media, raising further awareness of the process; and
- Social media was used to inform owners of the process.

The average increase of property values in the municipal area was **29%**. The average increase in the property rates revenue that is require for budget purposes is 6.5%. To reach this target it is required to reduce the Rand/ sent tariff for property rates.

The table below provides an indication of what the impact will be for a residential property that was previously valued at R1 000 000.

Table 12 - General valuation impact on a property of R1 000 000

			PROPOSED PROPERTY RATE TARIFF (cent/R)			MONTHLY PROPERTY RATE PAYABLE		
CURRENT VALUATION	NEW VALUATION	% INCREASE	CURRENT	NEW	% DECREASE	CURRENT R	NEW R	% INCREASE
1 000 000	1 200 000	20%	0,6648	0,533	-20%	526	511	-3%
1 000 000	1 230 000	23%	0,6648	0,533	-20%	526	524	0%
1 000 000	1 300 000	30%	0,6648	0,533	-20%	526	555	5%
1 000 000	1 400 000	40%	0,6648	0,533	-20%	526	600	14%
1 000 000	1 600 000	60%	0,6648	0,533	-20%	526	688	31%
1 000 000	1 800 000	80%	0,6648	0,533	-20%	526	777	48%
1 000 000	2 000 000	100%	0,6648	0,533	-20%	526	866	65%

1.3.11 Conclusion

The preparation of the 2017/18 budget for Saldanha Bay municipality was a difficult task, when considering that a new financial system was implemented, a new Council was elected and the budget was prepared on the mSCOA classification framework.

It is always difficult compiling a budget, even without these aforementioned factors, especially when the aim is to avoid any sporadic increases to the consumers.

The municipality has budgeted for an operating deficit of R42.3 million. The objective for Council will be to turn this around in the near future with effective cost containment strategies, without sacrificing on its service delivery standards.

1.4 Section 4 – Other important information

1.4.1 Vision, mission, strategic objectives and game changer obsessions

1.4.1.1 Vision

The strategic intent of Council over the next few years will be to enhance municipal service delivery and growth and development offerings.

The following vision has been adopted by the Council as the municipality's road map, indicating both what the municipality wants to become and guiding transformational initiatives by setting a defined direction for the municipality's growth:

Figure 3 – Vision of the Council

SMART is an acronym for the following aspects to give guidance to the formulation of Council's objectives:

- **S**uperior service – The rendering of service which exceed normal expectation.
- **M**andate – The effective and efficient execution of Council's mandate.
- **A**chievable – The setting of objectives which are realistically achievable.

- **R**esponsive – The setting of objectives that respond to the needs of the public.
- **T**eam – The promotion of a consolidated approach to address the challenges.

1.4.1.2 Mission

The following mission statement has been adopted by the Council to guide the actions of the Municipality, spell out its overall goal, provide a path, and guide decision-making. It serves to provide the framework or context within which the Council's strategies are formulated.

Saldanha Bay municipality is a caring institution that excels through:

- Accelerated economic growth for community prosperity
- Establishment of high quality and sustainable services
- Commitment to responsive and transparent governance
- The creation of a safe and healthy environment
- Long term financial sustainability

1.4.1.3 Strategic objectives

The Council has 10 strategic objectives to give effect to the vision and mission for the municipality and are based on the 5 game changer "obsessions" of Council. Whilst the mission statement provides direction for the municipality, the strategic objectives provide a way to measure progress toward realizing the ideals set by Council in the mission statement.

The 10 strategic objective are:

1. To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors;
2. To facilitate an integrated transport system;
3. To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water, waste management and electricity);
4. To develop socially integrated, safe and healthy communities;
5. To maintain and expand basic infrastructure for economic development and growth;
6. To be an innovative municipality through technology, best practices and caring culture;

7. To be a transparent, responsive and sustainable decentralised administration;
8. To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet);
9. To embrace a nurturing culture amongst our team members to gain trust from the community; and
10. To ensure compliance as prescribed by relevant legislation.

1.4.1.4 Game changer obsessions

The Council has identified the following game changers to serve as focus areas for achieving the vision and mission set for the municipality:

1. Economic Development and Growth;
2. Customer Care;
3. Technology and Innovation;
4. Cleanliness; and
5. Youth.

These focus areas serve as the foundation and framework on which the municipality will be able to realise its vision, help to drive National and Provincial Government's agenda, expand and enhance its infrastructure, and ensure that all residents have access to the essential services they require.

1.4.2 Implementation of a new financial system

On 26 August 2016 the municipality appointed a new financial system vendor, Munsoft, and in October 2017 successfully implemented the new financial system. This implementation process required a lot of resilience and effective change management processes.

The relevant municipal staff and system vendor must be commended for the hard work put in, and their diligence efforts, ensuring the success of the implementation process.

Included in Munsoft's tender submission was a proposal to implement a system called the Integrated Management Information System (IMIS), to replace the various sub-systems that the municipality currently deploys.

The aim of implementing as many of the IMIS components as supplied on the tender is multi-faceted and are as follows:

- Reduce the cost that is spent on the municipality's current 15 sub-systems on licensing cost, maintenance, development, integration and training of employees;
- Enable SBM employees to have a singular view of all their data for more informed management decisions; and
- Establish a seamless integration solution between financial systems processes and the organisational business processes, in line with mSCOA requirements.

The deployment of IMIS will assist, among others, with the following mSCOA business processes:

Table 13 – Business processes

Corporate governance	Overall management and best practices enforced by using IMIS.
Grant management	IMIS project register is based on the MIG model for the management of projects funded via grants.
Procurement cycle	Contract Management.
Real estate and resources management	IMIS assist with the management of municipal own properties and the lease and encroachment.
Land use and building control management	All IMIS Land use modules is based on an extensive data cleaning exercise, which all land parcels are verified with the Surveyor General Diagrams and the linking of each property to its registered owner, additionally all land parcels could be linked to the financial systems debtor information for verification that all land parcels are accounted for vice versa and the use thereof within other IMIS modules like Building Control which extensively make use of the Town Planning regulations which govern the permitted use of these land parcels.
Valuation roll management	Linking or managing the Valuation Roll information is an important data structure within any municipality and via the Valuation Roll module this data structures can be made available for other module during the processes and decision making activities within these processes.
Customer care, credit control and debt collection	IMIS can assist with the use of its Customer Care module which is developed to support the service delivery categories of any municipality and the process from log to finalise.

Some of the advantages of implementing IMIS includes:

- Central access point for all users through a standardized platform;
- Increased efficiency in the municipality's business processes;
- Defined processes with audit trails;
- Paperless – if the intention it to become a green municipality it can be done with this solution; the capabilities exist to do everything electronically;
- Integration with other systems and data repositories in real-time. System integration that has not been possible in the past is now not only possible but encouraged, ensuring a real-time view of all the data;
- There will be no more duplication of data, or data that is only kept within specific departments. There will only be one view of the data with increased data quality;
- Cost effectiveness – the municipality will only maintain 1 subsystem, as opposed to the current 15 subsystems, reducing cost on customization, integration, training and SLA agreements. Data will no longer be created in multiple places; and
- Higher integration between departments, therefore reducing the silos approach.

The growth potential of IMIS, coupled with the customisability and integration opportunities will now enable the municipality to operate and function much like a single Enterprise Resource Planning (ERP) solution, but without the excessive cost of a traditional tear 1 ERP.

1.4.3 MFMA Circular 82 on cost containment measures

It has been re-emphasised this year by National Treasury that municipalities must improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

National Treasury issued Circular 82 on cost containment measures on 30 March 2016, which was updated in November 2016.

The purpose of this Circular is to guide municipalities on cost containment measures that must be implemented in an effort to address the impact of the country's economic challenges. Municipalities must make clear and quantified commitments on cost containment when tabling its budgets, and to reference these commitments when submitting budget documentation to the National and Provincial Treasuries, as required by the MFMA.

Cost containment measures were already applied during the compilation of 2016/17 MTREF which was approved by Council in May 2016. This included reductions on certain general expenses line items.

During the budget principles report that was submitted to Council in October 2016 certain recommendations were made to Council on cost containment.

As a result of the mSCOA reclassification of expenditure, it is now a requirement to break items down to more levels, depending on the type of expenditure. This requirement forces departments to plan more specifically, responsibly and refrain from unnecessary, non-essential and non-priority spending.

The following cost containment measures were, among others, considered with the compilation of the budget:

1. Appointment of additional employees that were identified as necessary, was limited to **only critical positions** and the reduction of unplanned overtime;

2. The **reduction** of consultant fees, subsistence and travelling, number of employees travelling to conferences or meeting, overseas trips, limited office furnishing, saving on use of energy by the municipal departments, spending, reducing in printing of documents, purchasing of newspapers, extended using of computer equipment, avoiding of duplication of systems and processes, using of debt collectors, improving internal capacity of debt collecting, limiting private telephone calls of personnel by more closely monitoring;

3. The **eliminating** of wasteful expenditure on events, advertising, sponsorships, hosting of festivals and lavish functions.

4. In general, the **total expenditure** has been capped to grow with **only 6.2%**, despite increase in various lower level line items such as employee related costs which is budgeted in line the South African Local Government Bargaining Council, 3-year salary and wages collective agreement for the period 1 July 2015 until 30 June 2018.

1.4.4 Auditor General – audit outcomes

Saldanha Bay municipaliy has obtained “clean” audit status for the last two consecutive reporting years. Whilst a clean audit is no necessary a reflection on the service delivery performance of the municipality, or its financial performance, it does have a positive effect on the sentiment of the public, creditors and bank in terms of the commitment of the municipality to clean administration.

The audit outcomes history since 2009/10 are:

Table 14 – Auditor-General audit outcomes

Year	Outcome
2015/16	Clean Audit
2014/15	Clean Audit
2013/14	Unqualified
2012/13	Unqualified
2011/12	Unqualified
2010/11	Unqualified
2009/10	Qualification

1.4.5 Saldanha Bay Industrial Development Zone (SBIDZ)

The Saldanha Bay Industrial Development Zone (SBIDZ) is a strategic government initiative, linked to the broader strategic framework of the South African Government, driven by the National Development Plan and the National Growth Path.

The SBIDZ's vision is to create an enabling environment to promote sustainable economic growth and job creation, specifically in the Oil & Gas, Marine Fabrication and Repair and Maintenance industrial sectors.

It aims to achieve this vision by utilising existing enabling national legislation from the Department of Trade and Industries (DTI), the South African Revenue Services, and Transnet National Port Authority, and the active support of key programmes such as the Strategic Integrated Programme (SIP), which was created to focus on the integration, acceleration and implementation of infrastructure projects. Key to this is Operation Phakisa[2], Project Khulisa[3], the Provincial Game Changers, and the partnership with Transnet and its operating divisions, as well as the many other State Owned Enterprises, agencies, departments, societal organisations and business.

The SBIDZ is South Africa's first sector-specific zone and the first to be designated in and around a port, thus enabling it to develop a unique value

[2] Operation Phakisa, with "phakisa" meaning "hurry up" in Sesotho, is a results-driven approach, involving setting clear plans and targets, on-going monitoring of progress and making these results public. The first Operation Phakisa focussed on the Oceans Economy and unlocking the economic potential within this multi-faceted sector.

[3] Project Khulisa, which, translated from isiXhosa, means "Project Grow", falls under Provincial Strategic Goal 1, which focuses on job creation and opportunities to help improve the province's economy.

proposition to the targeted industries in collaboration with the Transnet National Port Authority (TNPA).

The SBIDZ supports the creation of industries with established and proven local and regional value chains, which are enabled through dynamic, flexible and an ease of doing business in the zone.

In 2016 the SDBIDZ recruited and registered 478 local small and medium-sized businesses on the SBIDZ's supplier development database for business gap analysis assessments. The assessments will provide the important first step in assisting local businesses to understand and meet the stringent quality, health, environmental and safety standards of the upstream oil, gas and marine industries. The SBIDZ has secured funding support from the DTI for the initiative and looks forward to engaging with more partners over the next year as the initiative evolves.

There were also over 140 small, medium and micro-enterprises (SMMEs) business development workshops in business strategy, human resource, marketing and social media, and tendering. These workshops were made possible through strategic public and private partnerships with the University of Western Cape, Productivity SA, and ABSA Bank.

Plans are underway for the establishment of various collaborative Enterprise and Supplier Development (ESD) programmes between public and private sector entities and major industries in the Saldanha Bay area. The collaboration aims to provide a more impactful suite of services and opportunities to emerging and established businesses, to drive meaningful economic growth and development.

By the end of December 2016, the R146 million contract for the provision of internal engineering services at the back of the port land (Saldock land) came to completion in less time than anticipated. The completion of the project means that basic services like roads, water and sewerage are ready for investors to connect to the Zone and begin developing their factories and warehouses.

Also completed is the R37 million contract for the civil and mechanical works upgrade of the Saldanha Bay Municipality's Waste Water Treatment Works facility. This is a new build upgrade that has enhanced the facility from a 2.5 mega litre to a 5 mega litre facility. This will ensure that the treatment works is able to manage the waste demand due to the industrial development and activities from the Zone. The contract also included the refurbishment of the existing 2.5Ml facility.

The link road and bridge which connects the land from the quay side to the back of port (Saldock land) and runs over the MR559 is due for completion

by April 2017. This R35 million project will create a seamless contiguous flow of goods and services with the customs controlled IDZ land and ultimately allow the Zone to operate as a Freeport in years to come.

The Saldanha Bay Municipality and the SBIDZ have concluded a service level agreement in December 2016 that will govern the level of support provided between these two parties to facilitate the success of the SBIDZ.

1.4.6 Long term financial plan

The municipality compiled a detailed long term financial plan in the 2016/17 year for 10 years, which was approved by Council on 26 May 2016. Included in the documentation was a recommendation that the municipality should consider implementing measures to address 18 specific items. The monitoring schedule of these issues is attached as **Annexure J**.

The 2017/18 review of the long term financial plan will be limited to the update of this monitoring schedule.

The Western Cape Provincial Government has communicated its willingness to fund Saldanha Bay municipality in its efforts to update the long term financial plan for 2018/19, as well as to develop 'n financial tool that allows for economic modelling to be done on revenue forecasting.

It is therefore foreseen that the long term financial plan will be reviewed comprehensively for implementation during the 2018/19 financial year.

1.4.7 Estimated public expenditure on infrastructure by the Western Cape Government

The total budget allocation from the Western Cape Government to Saldanha Bay municipality for 2017/18 is R706.8 million.

A total of 35 infrastructure projects are planned by Provincial Departments for the period 2017/18 to 2019/20. [4]

Some of these infrastructure projects and related capital projects are in various different stages of implementation, with some being in the planning phase, others in implementation with construction happening, and some are

[4] Source: Western Cape Government: Provincial Treasury. Budget Estimates of Provincial Revenue and Expenditure, 2017. ISBN 978-0-621-45141-2. Published March 2017.

in the process of being finalized and therefore in the ‘close-out’ phase. The information may be subject to change, depending on fiscal constraints and the availability of resources. The summary of infrastructure and capital related projects, as classified in the Estimates of Provincial Revenue and Expenditure are as follows:

The Department of Transport and Public Works has 17 infrastructure and/or capital expenditure projects with a budgeted value of R436 million over the period 2017/18 to 2019/20.

All 17 projects are classified to achieve ‘Economic Affairs’ outcomes – in other words, investment aims to support economic outcomes. The majority of the projects are upgradings, refurbishments and maintenance projects, and two of the projects are proposed new roads still in planning phase;

The Department of Education listed 2 infrastructure and/or capital expenditure projects with a total MTEF budget of R34,76 million for the period 2017/18 to 2019/20. The classification is aimed at achieving ‘Education’ outcomes. One of the projects appears to be a replacement school, whilst the other one is a new school planned; and

The Department of Health listed 16 infrastructure and/or capital expenditure projects with a total MTEF budget of R141,42 million aiming to achieve ‘Health’ outcomes. The infrastructure projects included are mainly those involving extensions to existing facilities, upgrading and refurbishments. Some projects involve investment in new technologies or acquisition of equipment.

1.5 Section 5 - Annual budget tables

The following budget tables have been completed and are attached as **Annexure A**:

- Table A1 – Budget Summary;
- Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard classification);
- Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- Table A4 – Budgeted Financial Performance (Revenue by Source and Expenditure by type);
- Table A5 – Budgeted Capital Expenditure by Vote, standard classification and funding;
- Table A6 – Budgeted Financial Position;
- Table A7 – Budgeted Cash Flows;

- Table A8 – Cash Backed reserves / accumulated surplus reconciliation;
- Table A9 – Asset Management; and
- Table A10 - Basic service delivery measurement.

The supporting schedules SA1 to SA 37 are also included as part of **Annexure A**.

2. PART 2 – SUPPORTING DOCUMENTATION

2.1 Section 6 - Overview of annual budget process

The overview of the 2017/18 Budget and IDP process is provided in the table below.

Table 15 - Overview of annual budget process

Budget and IDP timetable approved by Council	25 August 2016
IDP public participation process	7 November 2016 to 1 December 2016
Budget steering committee meetings	18 October 2016 18 November 2016 24 January 2017
Departments requested to budget in accordance with IDP needs	November 2016 – February 2017
Table draft Budget and IDP to Council	28 March 2017
Public participation meetings	3 April 2014 - 12 April 2017
Public submissions deadline	2 May 2017
Workshop with Council on budget related policies and inputs received from the public	4 May 2017
Tabling of budget for final approval by Council	25 May 2017

2.2 Section 7 - Overview of the alignment of the annual budget with the IDP

The IDP serves as a guideline to the municipality for the correct budget and resource allocations in ensuring that it meets the needs of its residents. It is also an integrated inter-governmental system of planning which requires the involvement of all three spheres of government. Some contributions have to be made by provincial and national government to assist municipal planning

and therefore government has created a range of policies and strategies to support and guide development and to ensure alignment between all spheres of government as stated by the section 24 of the Municipal Systems Act.

The alignment has been summarised in the table below.

The IDP drives the strategic development of SBM. The Municipality's budget is influenced by the game changer obsessions and strategic objectives identified in the IDP. The Service Delivery Budget Implementation Plan (SDBIP) ensures that the Municipality implements programmes and projects based on the IDP targets and associated budgets.

The budget has been compiled in accordance with the municipality's IDP document. Also refer to tables SA3, SA4 and SA5 which is aligned with the strategic objectives and goals of the municipality.

Table 16 - Municipal budget alignment with other government spheres

National outcomes	Alignment of Provincial strategic goals	Alignment of District Municipality strategic objectives	Alignment of Municipal strategic objectives
Decent employment through inclusive growth.	Create opportunities for growth and jobs.	To pursue economic growth and facilitation of job opportunities.	To diversify the economic base of the municipality through industrialisation, whilst at the same time nurturing traditional economic sectors. To maintain and expand basic infrastructure for economic development and growth
Improved quality of basic education.	Improve education outcomes and opportunities for youth development.	Promoting Social well-being of the Community.	N/a
An, efficient, competitive and responsive economic infrastructure network.	Create opportunities for growth and jobs.	To pursue Economic Growth and facilitation of job opportunities.	To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors. To maintain and expand basic infrastructure for economic development and growth
A long and healthy life for all South Africans.	Increase wellness, safety and tackle social ills.	Promoting Social well-being of the Community.	To develop socially integrated, safe and healthy communities.

National outcomes	**Alignment of Provincial strategic goals**	**Alignment of District Municipality strategic objectives**	**Alignment of Municipal strategic objectives**
All people in South Africa are and feel safe.	Increase wellness, safety and tackle social ills.	Promoting Social well-being of the Community.	To develop socially integrated, safe and healthy communities.
Sustainable human settlements and improved quality of household life.	Enable a resilient, sustainable, quality and inclusive living environment.	Providing essential Bulk services in the Region. Ensuring good governance and financial viability.	To develop socially integrated, safe and healthy communities. To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water waste management and electricity.)
Environmental assets and natural resources that are well protected and continually enhanced.	Enable a resilient, sustainable, quality and inclusive living environment.	Ensuring environmental integrity for the West Coast.	To develop socially integrated, safe and healthy communities.
Vibrant, equitable and sustainable rural communities with food security for all.	Enable a resilient, sustainable, quality and inclusive living environment.	Promoting Social well-being of the Community. To pursue Economic Growth and facilitation of job opportunities.	To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors. To develop socially integrated, safe and healthy communities.
Create a better South Africa and contribute to a better and safer Africa and World.	Increase wellness, safety and tackle social ills.	Promoting Social well-being of the Community.	To develop socially integrated, safe and healthy communities.

National outcomes	Alignment of Provincial strategic goals	Alignment of District Municipality strategic objectives	Alignment of Municipal strategic objectives
A skilled and capable workforce to support an inclusive growth path.	Improve education outcomes and opportunities for youth development.	To pursue Economic Growth and facilitation of job opportunities. providing essential Bulk services in the Region.	To develop socially integrated, safe and healthy communities. To maintain and expand basic infrastructure for economic development and growth
A responsive, accountable, effective and efficient local government system.	Embed good governance and integrated service delivery through partnerships and spatial alignment.	Ensuring good governance and financial viability. Providing essential Bulk services in the Region.	To be an innovative municipality through technology, best practices and caring culture. To be a transparent, responsive and sustainable decentralised administration. To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet). To embrace a nurturing culture amongst our team members to gain trust from the community.
An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship.	Embed good governance and integrated service delivery through partnerships and spatial alignment.	Ensuring good governance and financial viability. Providing essential Bulk services in the Region.	To develop an integrated transport system. To be an innovative municipality through technology, best practices and caring culture. To be a transparent, responsive and sustainable decentralised administration.

2.3 Section 8 - Measureable performance objectives and indicators

This budget is indicative of our commitment to achieving the objectives of local government set out in the Constitution of the Republic of South Africa and to do so in an efficient, effective and sustainable manner. These commitments are entrenched in our mission, vision and value statements and as such are reflected so in our budget and services delivery processes.

The MTREF has been compiled in such a manner to ensure sustainable service delivery and to invest in infrastructure that will ensure growth over the medium term to long term.

The measureable performance objectives are indicators included in the budget tables SA4 and SA7.

2.4 Section 9 - Budget related policies

The budget policies and the supply chain management policy are attached as **Annexure H**.

2.5 Section 10 - Overview of budget assumptions

The following assumptions were used in the preparation of the budget:

2.5.1 General assumptions

1. The estimated CPIX that were used compiling the budget was 6.2% for 2017/18, 6% for 2018/19 and 6% for 2019/20. All expenditure types do however not increase with a fixed or similar percentage;

2. The budget was compiled from a project perspective as required by mSCOA. Consequently, a re-classification of expenditure was necessary which result in comparability with previous years' line items not entirely possible;

3. Departments were required to budget in terms of cost containment measures that need to be applied. Directors and management has to apply strict control over non-priority spending;

4. Employment costs for 2017/18 is based on the Bargaining council agreement of CPIX plus 1% (that is 6.62% plus 1%), plus the normal notch increases, and 7% for the two outer years of the MTREF period.

5. The EPWP grant was based on the DORA allocation and is limited to R 1.5 million for 2017/18;

6. An increase of 6.2% was provided for the bulk water purchases;

7. An increase of 2% (0.31% increase and 1.69% growth) was provided for the bulk electricity purchases;

8. An amount of R 49 852 540 is budgeted as a cash backed portion of deprecation that will be transferred to the CRR; and

9. The external loans to be taken up to fund the capital budget as follows:
   - 2017/18 – R 35 646 091
     (which includes-roll overs of R 17 823 239 from 2016/17);
   - 2018/19 – R 54 055 000 new proposed external loan;
   - 2019/20 – R 65 365 000 new proposed external loan.

2.5.2 Revenue and tariff increase assumptions

Grants allocation has been included as follows in this budget:

- National Grants: In accordance with Division of Revenue Bill;
- Provincial Grants: In accordance with the Provincial Gazette;
- Other grants/ donations included in the budget are donations from Afrisam (R 2 million);
- Roll overs amounting to R 9 682 974 from the 2016/17 financial year has also been included. These roll overs relate to Regional Social Economic Project (R 5.250 m) and Vredenburg Urban Revitalisation Grant (R 4.433 m) and are all provincial grants. Departments were requested to apply for the roll overs of these funds before the final budget is approved.

The following principles and tariff increases, based on the cost reflectiveness of the tariffs are proposed:

- CPIX and affordability by community taken into account, but cost reflective;
- Electricity = 1.88% (*with a free 50 kWh per month to indigent households only, which is to be financed from the Equitable share);*
- Water = 7% (*with 6 kilolitres plus the basic levy for water free of charge to only indigent households);*
- Refuse = 8% - to ensure cost reflective tariffs;
- Rates = 6.5% - New valuation roll to be implemented);
- Sewerage = 7% - To ensure cost reflective tariffs;
- Sundry tariffs = 10% - Rental of halls, building plan fees, etc.

2.6 Section 11 - Overview of budget funding

The budget must be funded from actual revenue to be collected during the financial year and must be cost reflective. Tariffs could not be increased any further as it already results in a high average increase in consumer accounts that are above the CPIX of 6.4%. The Operating budget is funded from Revenue as indicated in the relevant A schedules attached.

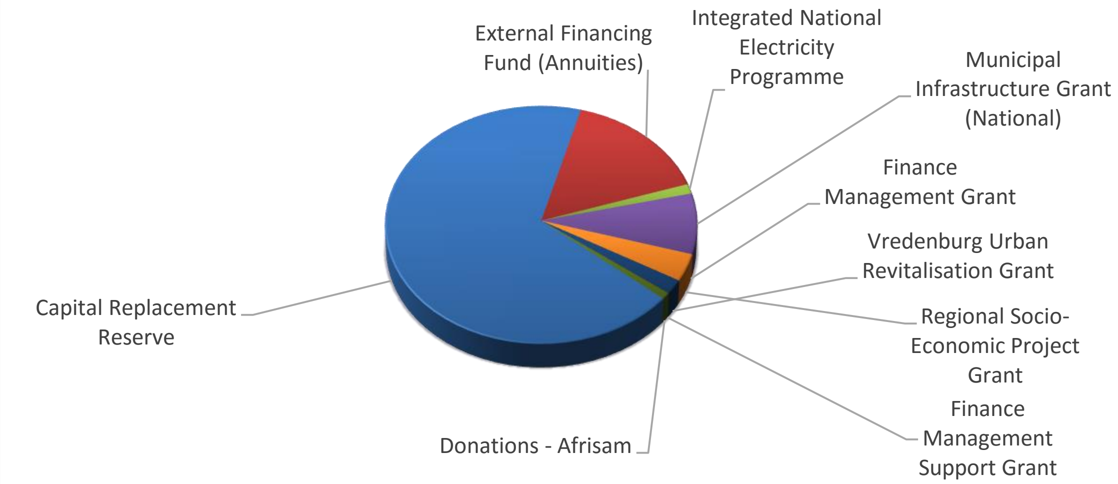
The capital budget is funded from various sources of which the Capital Replacement Reserve is the biggest contributor. The 3 year MTREF capital budget is R438.2 million. The MTREF capital budget will deplete the Capital Replacement Reserve, even if an additional R137.2 million is borrowed over the next three years. It is estimated that the CRR's balance will be only **R19.6 million** (including land sales and capital contributions ring-fenced**)** at the end of 2019/20.

A summary of the capital budget funding sources is provided in the table below:

Table 17 – Funding sources of the capital budget

Sources of funding	**2016/17 Adjustment budget**	**2017/18 Budget**	**2018/19 Budget**	**2019/20 Budget**
Capital Replacement Reserve	116 176 583	154 527 158	20 854 134	20 065 365
External Financing Fund (Annuities)	69 344 349	35 646 091	54 055 000	65 365 000
Regional Housing Board (Provincial)	3 629 517	-	10 480 000	-
Integrated National Electricity Programme	2 000 000	3 000 000	3 000 000	5 000 000
Municipal Infrastructure Grant (National)	17 605 400	18 702 650	19 567 150	20 480 100
Finance Management Grant	-	40 000	-	-
Regional Socio-Economic Project Grant	7 854 048	8 400 000	3 000 000	-
Vredenburg Urban Revitalisation Grant	5 932 115	4 432 974	-	-
Accelerated Community Infrastructure Programme	1 885 300	-	-	-
Finance Management Support Grant	-	50 000	-	-
Donations (Transnet and Afrisam)	7 853 599	2 000 000	-	-
Total	**232 280 911**	**226 798 873**	**110 956 284**	**110 910 465**

Figure 4 - Funding sources of the capital budget



2.6.1 Capital Replacement Reserve (CRR)

The municipality has set aside cash to replace assets or to acquire new assets. Since the implementation of General Recognised Accounting Practices (GRAP), and the subsequent implementation of depreciation charges in local government the capital replacement reserve's contributions is part of the depreciation charges. With the unbundling of infrastructure assets when GRAP was initially implemented the value of Property Plant and Equipment increased substantially. The status of the CRR is provided in the table below.

Table 18 – Capital Replacement Reserve

	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Opening balance on 1 July	**95 745 102**	**40 946 950**	**(53 727 668)**	**(14 854 903)**
Plus: Contributions				
Cash backed depreciation	51 378 431	49 852 540	49 726 899	44 571 795
Additional transfer from accumulated surplus	10 000 000	10 000 000	10 000 000	10 000 000
Contributions	**61 378 431**	**59 852 540**	**59 726 899**	**54 571 795**
Less: Capital Spending	(116 176 583)	(154 527 158)	(20 854 134)	(20 065 365)
Closing balance on 30 June	**40 946 950**	**(53 727 668)**	**(14 854 903)**	**19 651 527**

Over the years the capital replacement reserve was maintained in a responsible manner allowing the municipality to acquire assets through this internal funding source and without too much reliance on external borrowings and grants. When the capital budget was not spent in its entirety for a particular year, the funds were carried forward to complete the projects.

The capital replacement reserve is depleted and in future capital expenditure funded from the capital replacement reserve will be limited to the annual amount of cash backed depreciation, plus capital contributions received.

A history of the capital budget expenditure has been provided below as well as the budgeted estimates up to 2019/20. It is estimated that at the end of this 11-year period the municipality would have invested R1.429 billion into capital projects.

The capital contribution and land sales are ring-fenced to be utilised for the specific projects to be funded from the capital contributions and land sales that will only be used to fund land purchases and property development.

Table 19 – History: Capital budget versus actual expenditure

Year	Actual/ Estimate	Capital Budget	Capital Expenditure	%
2009/10	Actual	160 673 000	62 662 470	39%
2010/11	Actual	183 265 000	109 959 000	60%
2011/12	Actual	133 213 000	101 241 880	76%
2012/13	Actual	196 544 000	139 546 240	71%
2013/14	Actual	208 661 530	143 976 456	69%
2014/15	Actual	236 336 670	226 883 203	96%
2015/16	Actual	215 809 476	145 951 261	68%
2016/17	Estimate	232 280 912	139 368 547	60%
2017/18	Estimate	226 798 873	170 099 155	75%
2018/19	Estimate	100 476 284	90 428 656	90%
2019/20	Estimate	110 910 465	99 819 419	90%
TOTAL		**2 004 969 210**	**1 429 936 286**	**71%**

2.6.2 Depreciation

The depreciation cost is annually expensed in the statement of financial performance among the period in which the asset is expected to be used.

The annual depreciation cost is then transferred to a separate accumulated depreciation account which has the effect of preserving the historical cost of the assets. This account is in essence the probable replacement cost of the assets, in order to build a reserve to ensure that provision is made to replace the assets readily when it is needed to.

The table below illustrates the R-value of the depreciation not cashed back, as well as the percentage of the depreciation that is cash-backed. The municipality is considering options how to increase this cash-backed position for future years.

Table 20 – Cash shortfall on depreciation

	2016/17 Adjustment budget	**2017/18 Budget**	**2018/19 Budget**	**2019/20 Budget**
CRR contribution	61 378 431	59 852 540	59 726 899	54 571 795
Plus: Redemption of loans	9 572 268	8 509 915	8 826 793	12 769 679
Less: Depreciation	138 570 558	136 123 655	144 291 116	152 948 590
Shortfall	**(67 619 859)**	**(67 761 200)**	**(75 737 424)**	**(85 607 116)**
Percentage shortfall	**49%**	**50%**	**52%**	**56%**

2.6.3 Housing Development Fund

The housing development fund is administered in terms of the Housing Act, Act 107 of 1997. The status of the housing development fund is provided below. This funding source is insignificant in its contribution to the capital budget.

2.6.4 External loans

An external loan to the value of R 123 million being R 47 million in 2015/16, R 58 million in 2016/17 and R 17.8 million in 2017/18 was approved in the 2015/16 MTREF.

Provision is made in the 2017/18 MTREF final year for possible new loans of R54 055 000 for 2018/19 and R65 365 000 respectively. Council has not committed itself as yet and a formal decision on this will be made during the next year.

Table 21 - Summary external loans

Year	Own revenue	Opening balance	Redemption	New and proposed new loans	Closing balance	Loan as percentage of Own revenue
2012/13 – Actual	591 732 275	65 463 190	-11 903 594	-	53 559 596	9%
2013/14 – Actual	621 647 918	65 785 639	-12 189 934	-	53 595 705	9%
2014/15 – Actual	668 366 225	53 595 705	-11 046 527	-	42 549 178	6%
2015/16 – Actual	781 679 757	42 549 178	-7 431 794	47 060 000	82 177 384	11%
2016/17 - Adjustment budget	826 778 880	82 177 384	-9 572 268	58 180 000	130 785 116	16%
2017/18 – Budget	873 183 848	130 785 116	-8 509 915	17 822 852	140 098 053	16%
2018/19 – Budget	924 693 170	140 098 053	-8 826 793	54 055 000	185 326 260	20%
2019/20 – Budget	987 648 479	185 326 260	-12 769 679	65 365 000	237 921 581	24%
				242 482 852		

2.7 Section 12 - Expenditure on allocations and grant programmes

The total grants budgeted for 2017/18 comprises R 122.2 million, and for the two outer years are R 128.4 million and R 127 million respectively. The split between the various grants are listed below.

Table 22 - Grants allocations

	Classification	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
National DORA grants					
Finance Management Grant	Operating	1 540 840	1 510 000	1 550 000	1 550 000
Finance Management Grant	Capital		40 000	-	-
Municipal Infrastructure Grant	Capital	17 605 400	18 702 650	19 567 150	20 480 100
Municipal Infrastructure Grant	Operating	926 600	984 350	1 029 850	1 077 900
Integrated Electrification Programme	Capital	2 000 000	3 000 000	3 000 000	5 000 000
Expanded Public Works Programme	Operating	1 071 000	1 500 000	-	-
Equitable Share	Operating	62 832 000	71 511 000	80 637 000	88 800 000
Total National DORA grants		**85 975 840**	**97 248 000**	**105 784 000**	**116 908 000**
Provincial grants					
Housing and Human Settlement	Capital	3 629 517		10 480 000	
Accelerated Community Infrastructure Programme	Capital	1 885 300			
Cultural affairs: Library service	Operating	6 268 000	6 769 000	7 185 000	7 573 000
Community Development Worker Grant	Operating	75 000	74 000	74 000	74 000

	Classification	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Regional Socio-Economic Project	Capital	7 854 048	8 400 000	3 000 000	-
Regional Socio-Economic Project	Operating		500 000	500 000	-
Financial Management Support	Capital	-	50 000		
Financial Management Support	Operating	923 215	648 124	156 876	-
Fire Service Grant	Operating		800 000	-	-
Municipal System Improvement Grant	Capital				
Municipal System Improvement Grant	Operating				1 000 000
Thusong Centre	Operating	105 728			100 000
Proclaimed Main Roads Grant	Operating	126 000	127 000	-	-
Municipal Spatial development framework	Operating	500 000			
Vredenburg Urban Revitalisation grant	Operating	1 000 000			
Vredenburg Urban Revitalisation grant	Capital	5 932 115	4 432 974	-	-
WC Financial Management Capacity Building grant	Operating	180 000	240 000	360 000	480 000
Total Provincial grants		**28 478 923**	**22 041 098**	**21 755 876**	**9 227 000**
Other grants and donations					
Donations Transnet	Capital	5 748 600	-	-	-
Donations Afrisam	Capital	2 105 000	2 000 000	-	-
Donation IDZ	Operating	5 200			
Other Donation (330)	Operating	750 000			
Saldana Steel funds/ Social community investment	Operating	898 378			
SETA Grants	Operating	412 679	890 000	890 000	890 000

	Classification	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total other grants and donations		9 919 857	2 890 000	890 000	890 000
TOTAL GRANTS		**124 374 620**	**122 179 098**	**128 429 876**	**127 025 000**
Split between:					
- Operating grants		77 614 640	85 553 474	92 382 726	101 544 900
- Capital grants		46 759 980	36 625 624	36 047 150	25 480 100
TOTAL GRANTS		**124 374 620**	**122 179 098**	**128 429 876**	**127 025 000**

Excluded from the grants above, is the Provincial housing grant for the erection of top structures. Because the municipality act as an agent, the accounting treatment of these grants requires that it not be treated as Revenue. It is allocated to a control account where the grant receipts are netted of against all expenditures made against this grant. It is for this reason that it was also not included in the operating budget as revenue or expenditure.

The total grant that was allocated to the municipality of the MTREF is provided in the table below.

Table 23 – Provincial housing grants

	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Housing grants - top structures	37 560 000	20 918 000	-	-

2.8 Section 13 – Transfers and grants made by the municipality

The total transfers and grants amounts to R3 893 193 in 2017/18, R4 062 842 in 2018/19 and R4 241 005 in 2019/20 respectively. See SA 21 for a listing of these transfers and grants.

2.9 Section 14 - Councillor allowances and employee benefits

This is contained in supporting schedule table SA22 and SA23. A summary of the employee related cost, excluding councillors salaries and allowances has been provided in the table below.

Table 24 – Employee cost percentages

Year	Salary cost	Own revenue	Total operating expenditure	Percentage of Own revenue	Percentage of total operating expenditure
2016/17 - Adjustment budget	299 756 269	826 778 880	972 420 221	36,3%	30,8%
2017/18 - Budget	325 906 110	875 183 848	1 039 703 300	37,2%	31,3%
2018/19 - Budget	346 324 592	922 282 338	1 100 717 346	37,6%	31,5%
2019/20 - Budget	370 385 615	985 212 999	1 180 221 887	37,6%	31,4%

2.10 Section 15 - Monthly targets for revenue expenditure and cash flows

This is contained in supporting schedule table SA25 and SA30

2.11 Section 16 - Annual budgets and sdbip

The service delivery and budget implementation plans (sdbip) will be dealt with after the budget is finally approved to be submitted to the Mayor within 14 days after the approval of the budget and approved by the Mayor within 28 days after the approval of the budget.

2.12 Section 17 - Contracts having future budgetary implications

It is required to disclose in the budget documentation any contracts that will impose financial obligations on the municipality beyond the three years covered by the 2015/16 MTREF. The detail of this is included in supporting tables SA32 and SA33.

2.13 Section 18 - Capital expenditure details

The detailed capital budget per Ward is included in the budget documents as **Annexure C**. More detail on the Capital Budget is contained in Supporting tables SA34a; SA34b, SA34c; SA35; SA36.

The capital budget for 2016/17 comprises R209 248 040, and for the two outer years are R176 023 050 and R 118 385 750 respectively. The summary of the capital budgets per Main Vote and per Ward is listed below in **table 23**, **table 24**, **figure 5** and **figure 6** respectively.

Table 25 - Capital budget per vote

Directorate	**2016/17 Adjustment budget**	**2017/18 Budget**	**2018/19 Budget**	**2019/20 Budget**
Finance	730 705	372 600	200 000	210 000
Community & Operational Services	14 448 525	9 876 626	1 280 000	3 040 000
Engineering & Planning Services	180 387 603	190 891 381	100 955 298	103 855 100
Corporate & Protection Services	29 964 078	15 618 266	5 520 986	3 805 365
Office of the Municipal Manager	6 750 000	40 000	-	-
Council	-	50 000	-	-
Economic Development and Strategic Services	-	9 950 000	3 000 000	-
TOTAL	**232 280 911**	**226 798 873**	**110 956 284**	**110 910 465**

Figure 5 - Capital budget per vote

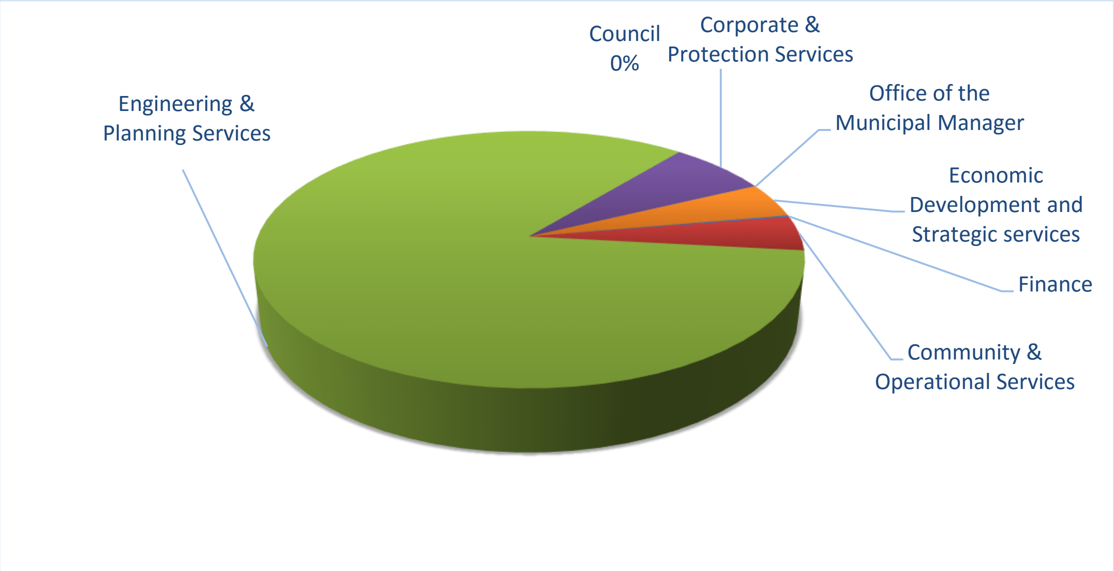
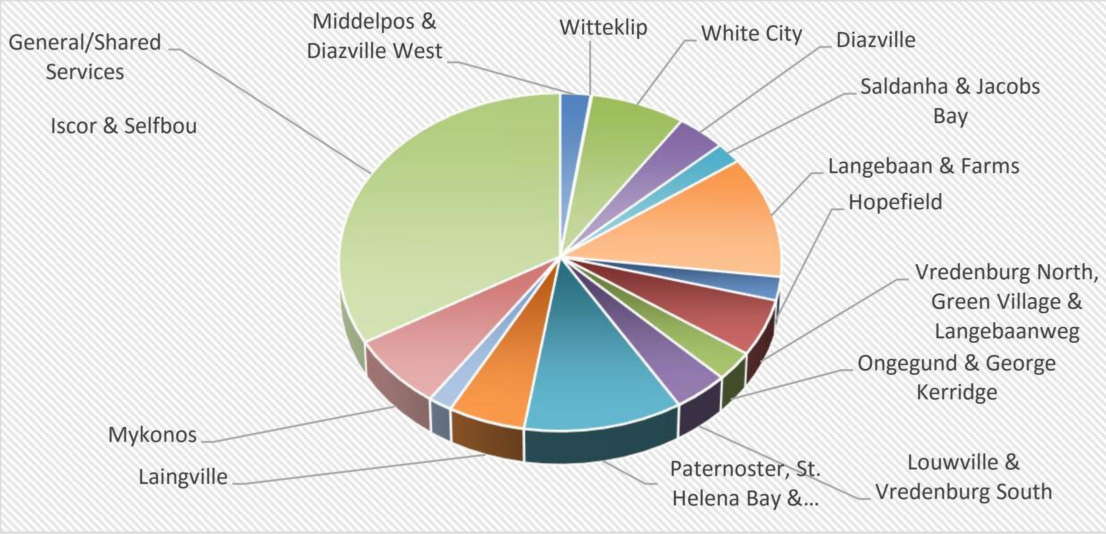


Table 26 - Capital budget per ward

Ward	2016/17 Adjustment budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
Middelpos & Diazville West	1 746 675	5 207 000	1 400 000	1 650 000
Witteklip	1 125 000	200 000	50 000	50 000
White City	32 790 217	16 175 111	50 000	2 504 847
Diazville	2 599 061	8 386 975	4 120 000	6 200 000
Saldanha & Jacobs Bay	17 143 488	4 543 000	4 000 000	8 430 000
Langebaan & Farms	45 587 850	26 532 344	5 230 000	4 340 000
Hopefield	7 046 520	5 084 055	10 025 000	3 150 000
Vredenburg North, Green Village & Langebaanweg	10 473 618	12 210 000	6 400 000	6 740 000
Ongegund & George Kerridge	387 120	6 400 000	5 450 000	190 000
Louwville & Vredenburg South	16 467 676	8 849 247	1 800 000	1 900 000
Paternoster, St. Helena Bay & Steenberg's Cove	8 589 026	25 568 852	4 347 148	3 100 000
Laingville	15 370 087	12 376 308	10 630 000	11 650 000
Iscor & Selfbou	7 143 551	3 855 974	50 000	50 000
Mykonos	-	15 835 000	7 025 000	8 850 000
General/Shared Services	65 811 022	75 575 007	50 379 136	52 105 618
TOTAL	**232 280 911**	**226 798 873**	**110 956 284**	**110 910 465**

Figure 6 - Capital budget per ward 2017/18



2.14 Section 19 - Legislation compliance status

All relevant legislations and regulations have been implemented. The applicable legislation and circulars considered were:

- Sections 15 – 33 of the MFMA;
- MFMA circulars 10, 12, 13, 14, 19, 28, 31, 45, 48, 51, 54, 58, 59, 64, 66, 67, 70, 72, 74, 75,78,79, 82, 85 and 86.
- Municipal Budget and Reporting Regulations, 2009.

The most recent budget circular is included in the budget documentation.

2.15 Section 20 - Other supporting documents

2.15.1 Service Level Standards

In terms of MFMA circulars 72, 75, 78 and 79 the municipality must adopt service standards as it provides transparency in understanding performance indicators. Local government is mostly service delivery orientated and as such need to be clear on what the public can expect from the municipality as a service delivery standard.

The service delivery standards set are attached as **Annexure "I"** and must to be approved by council.